Marketing for the Small Manufacturer in Alberta

Number Three of a Series

Alberta

TOURISM AND
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Marketing for the Small Manufacturer in Alberta

Marketing, as defined by the American Marketing Association, is "the performance of business activities that direct the flow of goods and services from producer to consumer or user."

Marketing is not a new concept. Various aspects of marketing have been practised since the earliest days of man. But changes have occurred! Perhaps the most noteworthy is the recent change of emphasis from product to customer. Several years ago the product was everything. Witness Henry Ford in his early production of cars - you could have any color you wanted as long as it was black.

Today's marketing devotes its attention to the needs of the customer. By finding out what the customer needs and wants, a company can then build the product or service to match those needs. The differences may appear slight, but they have revolutionized some businesses.

Large companies have staff marketing specialists to call upon, or they can afford to hire consultants to advise them. The small businessman is often left to his own devices, not knowing what steps to take to form a marketing plan, and not able to afford outside consultants. This book provides some guidelines on the development of a plan; it outlines some of the questions which every businessman should ask himself. However, it should not be considered as anything more than an introduction to marketing. There are many excellent books available on the subject of marketing, which provide a more in-depth look at this important subject.

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Chapter One

The Four P's of Marketing

Virtually all marketing involves four main factors which we've made easier by calling the four P's.

PLACE

PRODUCT

PRICE

PROMOTION

An examination of these four aspects provides a check list of subjects to be considered by the businessman embarking on marketing a product or service. The variables work together like this: The **Placement** of a **Product** and its **Promotion** for sale at a **Price.**

When one examines marketing using the four P's, it is analogous to running the high hurdles in a track and field meet, with one slight difference — all the hurdles must be standing to win the race. If one is knocked over, then the runner is disqualified.

Thus an examination of Place, and the answers to all the questions in that section, qualifies one to attempt the Product hurdle, and so on past Price and Promotion.

PLACE

The market is the critical factor. Without it no product can be promoted and sold at any price. The market is made up of all the persons or business units that buy a product or service.

In the "customer oriented" approach to marketing today, producers are constantly measuring the market to identify changing or new customer needs. We have identified some of the questions to be asked in any marketing program into five main categories.

1. Who is the market? Is our customer the consumer, the wholesaler, the distributor, another manufacturer?
   In answering this question, try to obtain as much information as possible as it will be useful when advertising and promotional choices are made. How old is he? What does he read? What is his income? Where does he live? What are his needs?
2. How big is the market? How large is it in units, dollars, population?
3. Where is the market? Is it local? Is it regional? Is it national? Is it international?
4. How do we enter the market? How do we communicate with our customer? What marketing channels should we use? What should our pricing strategy be on introduction?
5. How do we maintain our market share? Does our marketing strategy change after entry? What will our promotional strategy be? How do we monitor and review the market?

PRODUCT

1. The prime consideration in any product is whether or not it meets the needs of the end user. The customer has to be convinced that the product will do something for him before he will consider purchasing it.

Thus the product should be designed to satisfy a customer need and it should also be as aesthetically pleasing as possible within the confines of practicality.

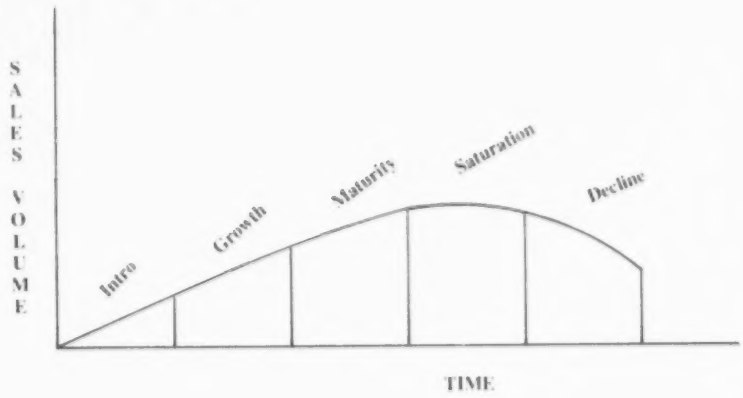
Design, then, embraces function and appearance.

2. How a product is packaged is important. Packaging must offer protection for the product, convenience in assembly and shipping, promotional possibilities, and yet be economical. Further, it must conform to government regulations regarding labelling, size, etc.

   Some products will require maximum protection and minimum promotional opportunities; others will be the reverse. Regardless, packaging deserves a carefully considered program with its own set of objectives.

3. The decision on whether or not to produce a particular item will be determined partially by examining the product life cycle.

   Following is a time/sales volume graph of a product life cycle:



The shape of the graph is determined by a wide variety of forces. Technological change can put a product into a decline overnight. An example might be the transistor replacing the vacuum tube.

Market acceptance of a consumer product is also a major factor. In recent times, who would have thought that pet rocks would take off the way they did. But their decline came quickly as the fad passed.

Competition is another major factor influencing the product life cycle. If it is easy for a competitive product to be introduced then the saturation and decline stages may be reached earlier.

PRICE

Having examined the product and decided that it will meet customer needs, that it is aesthetically pleasing, and that it is still early enough in the product life cycle to consider marketing it, the next main consideration is price.

Price is important because, while buyers make their purchase decision on a number of criteria (quality, service, reliability, price, etc.) price is the major factor in most cases.

Price structures should be established to allow for ease in price changes for promotional purposes or to react to competitors' actions wherever possible. However, there is no one formula for price determination, and several factors influence or restrict the degree of discretionary price setting. The overall objective is to be able to produce, package, promote, distribute and sell the item with enough left over for the costs of overhead, administration, accounting, etc., plus a reasonable profit. The true discretionary area is the "profit" portion. A businessman can lower his price if he is willing to take a lower profit.

In some cases price determination is affected by the number of similar products on the market. An accepted price will have been determined by them, certainly on the upward end of the price spectrum, while some flexibility will exist on the low end. A decision could be made to introduce a product at a lower price with a planned move to normal price levels following the introductory stage.

Similarly, price determination may be restricted by competitive activity. If there are very few firms which produce the same product they will all tend to charge the same price. A slight increase in price may not be followed by these firms, but a decrease would likely be met.

Depending on the nature of the product and the distribution channels chosen, there may be occasions to offer volume discounts, freight and advertising allowances, cash discounts, etc., in the pricing policy. All these factors are cost items which must be taken into account in pricing.

PROMOTION

A good promotional strategy will stimulate sales through persuasive communications to the prospective buyers.

Following are examples of promotional activities. The extent to which any or all of them will be used will be determined in part by the type of product, the state of the market, the product's stage in the product life cycle, competitive activity, the company's objectives and distribution channels (a subject for greater analysis in a later chapter).

- Advertising — a paid form of presentation of goods or services in a medium. Traditional media are daily and weekly newspapers, radio, TV, consumer and/or trade magazines, billboards, signs, direct mailing, handbills, etc.
- Personal Selling — an oral presentation with the buyer, in some cases supported by printed or audio-visual materials.
- Sales Promotion — other marketing activities such as displays, shows, demonstrations, point of purchase signs, sponsorship and other non-recurrent sales efforts.
- Publicity — significant news about the company or product which would gain favorable exposure in the media without being paid for by the sponsor.

Selecting the relative weights of these various activities is a judgement decision governed partly by available budget, partly by the nature of the product, and partly by the nature of the customer

(wholesaler, distributor, consumer). In the jargon of today, the formula arrived at by selecting the various activities from the preceding list is the marketing "mix".

A well selected mix will have an impact on sales greater than the sum of the parts which make up the mix. It is like compound interest as against simple interest in investment terms.

However, the more factors used, the more difficult it is to analyze the contribution made by any one type of activity. It raises the dilemma of knowing that half your marketing activities are productive, but not knowing which half.

Determining a budget for these promotional activities is a judgement matter as well. There are no hard and fast rules on how much to spend, but there are some common methods, as follows.

- The Affordable: Budget is set on the basis of what the company thinks it can afford.
- Percentage of Sales: Budget is set by using a straight percentage of anticipated sales. For example, your company sells $100,000 of goods each month and the budget for promotional activities is $2,000 per month. Thus your budget is two percent of sales. Now you decide that you want to increase your sales to $150,000 per month, so you increase your promotional budget to $3,000 per month — two percent of $150,000.

  The percentage of sales formula can also be applied as follows: Your company sells 1,000 units per month and the promotional cost is $2 per unit. Therefore the budget is $2,000 per month. Now suppose the company wishes to increase unit sales to 1,500 per month; it should logically raise the promotional budget to $3,000 per month.
- Competitive: Budget is set based on competitors or the industry's reported advertising expenditures as a ratio to sales.
- Objective and Task: Budget is determined on a three step formula.

  1) Define the promotional objectives as specifically as possible with identified progress goals.

  2) Outline what tasks must be performed to achieve each objective.

  3) Estimate the cost of performing these tasks.

Each of these methods has strengths and weaknesses. But the company's stated objectives, its sales objectives and its marketing plan will determine which method or methods should be used.

Chapter Two

Approaching the Marketplace — Market Research as an Aid to Decision-Making

What every businessman needs is information on which he can base his marketing decisions. Market research is the term used to describe the information gathering process. Theoretically, the better the market research, the better the marketing decisions.

Examination of Place in Chapter One's Four P's of Marketing will have answered a number of questions about the market. That is the beginning of market research.

HOW TO ANALYZE THE SITUATION

With the company's stated objectives and tentative marketing objectives in front of him the businessman then must decide what questions he wants answered before he finalizes his marketing decisions. He takes stock of his situation. He tries to identify what additional information he will require before that final decision is made.

Following is a checklist of questions the businessman should consider. The questions under each heading are not intended to be a complete list, but to indicate the subject areas only.

1. Information about the market.

   — Where is the market? Name the location by section of city, total city, city and surrounding market area (define), province, group or provinces, national or parts of international, etc. Be specific.

   — What is the structure of the market area? Factors include population, growth trends, distances, transportation, etc.

   — Who is the market? Wholesalers? Retailers? Consumers? Distributors? Females? Males? Their ages? Education levels?

   — What are the customers' characteristics? What newspapers do they read? Where do they live? Do they have a car? Two cars? Television?

   — How can we reach them? Daily newspapers? Radio? Direct mail? Store demonstrations? Home or work demonstrations? Television? Magazines? Etc.

   — What about infrastructure? Electricity? Gas? Water? Phones? Port or air services? Trucking firms?

2. Information about competitors.

   — Who are they?

   — What are their strengths and weaknesses?

   — How are their products received?

   — What are their sales volumes and market share?

   — How will they react to a new firm entering the market?

   — What is their price structure?

— What marketing activities do they use?

3. Information about general economic situation.

   — Is the economy depressed, inflated, stagnant, stable or buoyant?

   — What is the unemployment level?

   — Is labour readily available? Skilled? Unskilled? At what cost?

   — What is the tax level?

   — How stable is the government?

   — Are there likely to be restrictions imposed?

SOURCES OF MARKETING INFORMATION

Having arrived at a list of questions to which he must have answers, the businessman now embarks on obtaining the answers. A wide variety of sources of marketing information is available. Some of the more significant sources are:

1. Statistics Canada — which maintains offices in all major centres and provides a subscription service at very reasonable rates. A catalogue of publications and services is available from Statistics Canada offices.
2. Federal Department of Industry, Trade and Commerce — which maintains offices in Ottawa and major cities across Canada is a source of data, market surveys and research reports.
3. Provincial government departments — maintain certain market information services. In Alberta, contact Alberta Tourism and Small Business. A list of the department's offices is on page 22.
4. University business schools — can provide information and can direct business to the proper information sources.
5. Trade journals and other trade publications — are a prime source of market data and information on new developments and competitors within specific industries. These are often available in the reference section of the library.
6. Industry trade associations — conduct their own market research on behalf of the industry. They can also be of direct assistance to member companies within the industry for research projects.
7. Suppliers, customers and competitors — can provide information on problem areas, prices, product requirements and competitors' developments on a continuing basis.
8. Advertising companies — can provide information on consumer markets and the various promotional programs required to penetrate these markets.
9. The feedback from distribution channels and their salesmen — can also provide information.

10. Management consultants and market research companies — can provide information and research services at a price and should be considered.

The small businessman who ignores these information services and fails to invest some effort into researching his market faces the risk of losing ground to his better-informed competitors.

A list of marketing and research services can be found in Appendix II.

INTERPRETATION OF RESEARCH DATA AND THE DECISION TO PROCEED

After all data collection has been completed, the information must be studied and interpreted so that management has an estimated market share potential and a basis for a decision on whether or not to proceed.

If the decision is to proceed, then an effective marketing program must be planned and developed in combination with the market research results and the current economic factors.

Two examples of marketing research studies can be found in Appendix I. They take the reader through the whole marketing research process from the basic decision-making to the interpretation of research data and conclusion.

In the next chapter, we will take our first tentative steps into the marketplace and discuss the organization of the marketing program.

Chapter Three

Entering the Marketplace — The Marketing Program

The marketing program is a set of policy decisions on the allocation and mix of the total marketing effort. It is developed only after the company analyzes its marketing opportunities and selects its marketing targets.

ORGANIZING FOR THE MARKETING ACTIVITY

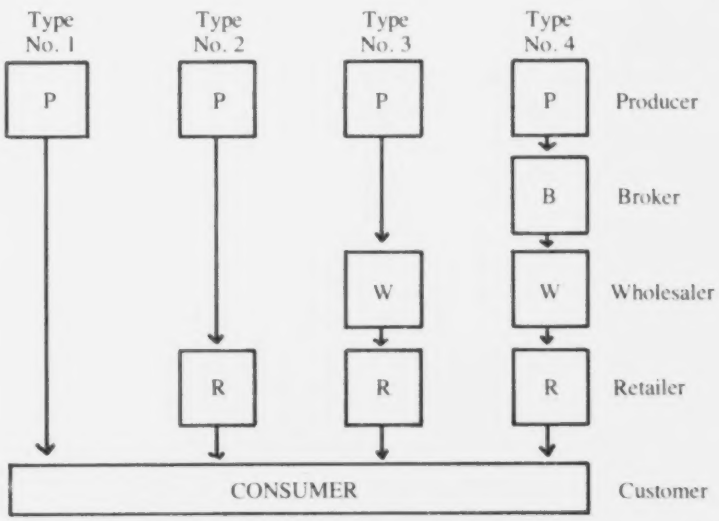
Keeping in mind, then, the emphasis on consumers' needs, an integrated marketing effort is aimed at well-defined customer groups to achieve planned volumes and profits.

The marketing planning process involves:

1. A diagnosis — of where the company is presently.
2. A prognosis — of where it is headed.
3. Stated objectives — of where it should be headed.
4. A strategy — of how it should get there.
5. Tactics — of what specific action should be undertaken by whom and when.
6. Control — what indicators should be watched to indicate progress of success (this will be covered more extensively in the next chapter).

SELECTION OF A DISTRIBUTION PATTERN

Selecting a marketing channel is another challenging decision facing a new company. The following diagram shows the various channels and relationships between the producer and the consumer.



Marketing channels can be simple, as in Type No. 1. A custom tailor taking orders for suits from customers in his store is one example of activity in this channel.

Channels can also be quite complex, as in Type No. 4. Activity in this channel follows a chain, as when, for example, a small food plant operator markets his products through a food broker, who sells to a food wholesaler, who in turn supplies a food retailer, who then sells to the end consumer.

Though the best way to market may be a foregone conclusion, there may be a problem in getting an available middleman to handle the producer's line. At the beginning, even the reason for using a middleman may be a mystery, when it is possible for a producer to go to the consumer directly.

Middlemen are used largely because of their greater efficiency in the performance of basic marketing tasks and functions. Marketing intermediaries through their experience, specialization, contacts and scale of operation, offer the producer more than he can usually achieve on his own.

A new firm starting out as a local or regional operation and seeking sales in a limited market area may actually have little choice in its selection of middlemen in the channel of distribution, due to the limited number of manufacturers agents, wholesalers and established retailers in the area.

Objectives must be established for each intermediary and his performance evaluated periodically against past sales, other channel members' sales and established sales quotas. Because the market environment changes continually, firms should be prepared to make distribution and sales channel revisions as required to maintain market competitiveness.

THE SALES FORCE

The sales force's objectives are derived from decisions on marketing strategy and promotional programs.

The act of selling is only one of the many activities and responsibilities of a salesman. Foremost, he is representing your company and your products. He is usually the first contact with the consumer and his presentation, service and appearance forms a vital link in the portrayal of the corporate image you want to create in the business world.

Chapter Four

Inside the Marketplace — Marketing Control

Marketing control is practised by virtually all companies to one degree or another. In order to discuss this concept more completely, this book polarizes marketing control into two levels — ongoing analysis of a specific marketing program; and the more global marketing review, or audit.

ONGOING MARKETING CONTROL

Ongoing marketing control is nothing more than a built-in measurement of results of marketing activities compared with the planned results and the implementation of some action to bring these two factors closer together.

In order to have an effective control system, the marketer must know what information he needs to make his comparisons, where that information is available, and how to get it quickly. His marketing plan should define what is a normal or acceptable range of performance so he can identify areas requiring remedial action.

His system should have four elements:

1. Defined goals, standards and tolerances for each marketing project.
2. A clearly stated program to achieve those goals.
3. A method of measuring results.
4. A plan of adjustments either in goals or program, or both, if goals are not being achieved in an acceptable range.

Ongoing marketing control activities are generally more frequent when a product is being introduced, or when marketing strategies have been changed with an existing product.

MARKETING REVIEW

The marketing review is a systematic, critical and impartial evaluation of the marketing function within the framework of the company's objectives, programs and organization. It measures whether or not a company is achieving its marketing objectives, and appraises those objectives.

Companies have a tendency to conduct marketing reviews only when a crisis situation arises. Because the reviews have the three-fold purpose of determining what is being done, appraising what is being done and recommending what should be done, they should be conducted regularly. Indeed they should be part of the company's long-range planning process.

Marketing reviews should be conducted by someone who is not directly involved in the marketing process of that company. Impartiality is critical. He should also be expert in marketing, preferably with a background in marketing the same or a similar product.

Large companies, with greater resources, and, perhaps, larger and more refined marketing programs often hire management

consultants and other experts to conduct their marketing reviews on an annual basis. More frequent reviews are sometimes conducted with the president or some other senior staff official as the reviewer.

In smaller companies there may not be anyone on staff who could qualify on the impartiality measure, so most of these companies hire outside reviewers. Management consultants, marketing consultants, university and technical college faculties are prime areas in searching for a reviewer.

COMPONENTS OF A MARKETING REVIEW

1. OBJECTIVES

The reviewer must obtain a clear statement of the marketing objectives of the company. Generally these are taken from the marketing plan and the reviewer must satisfy himself that there is clear understanding of these objectives.

Without clearly stated objectives the company, and the reviewer, is in the same situation as an individual starting out on a trip without a destination. He may know generally the area of the city he wishes to visit, but until he defines his destination exactly, he cannot make plans to get there.

The reviewer's checklist of appraising the stated objectives would cover such topics as:

a) Do they fit the company's abilities to meet them adequately? Do they take full advantage of opportunities and resources available?

b) Do they show an understanding of the market for that product or type of product?

c) Do they address themselves to satisfy customer's needs as opposed to pushing a product to achieve sales volume per se.

2. EVALUATION OF THE PROGRAM

Now that the objectives are clear, the reviewer turns his attention to the strategies and resources allocated to achieve the goal.

a) What are the budget and marketing mix allocations to the marketing effort? Are they sufficient to achieve the objectives? (The reviewer can only offer management an opinion on the subject supported by facts and his experience. Thus it is important to hire the right reviewer.)

b) What effect, if any, would result from changing emphasis from one area of the marketing mix to another? What would happen if greater advertising expenditures were sanctioned, relative to personal selling? Would the total marketing effort benefit from increases, reductions, or termination of one or more segments of the marketing mix?

c) Does the product continue to satisfy customer needs? Would improved design or styling make it more attractive?

d) Is the price satisfactory? Are competitors charging more or less for similar products? Does the present price provide an adequate profit level?

3. MARKETING PROGRAM IMPLEMENTATION

Having satisfied himself that objectives are clearly stated and that the allocation of resources is adequate to achieve them, the reviewer focusses on the procedures and tactics used.

Topics considered are:

1. The choice of salesmen's compensation scheme;
2. Criteria used in hiring salesmen;
3. Choice of an advertising agency;
4. Choice of shipment and transportation;
5. Number and location of warehouses;
6. Distribution efficiency;
7. Schedule of trade discounts/volume allowances and credit;
8. Order system/processing;
9. Invoicing/payment terms.

In the analysis of tactical criteria the reviewer should list alternative measures available and why a particular tactic was used. The identification of operating procedures usually explains who does what, and when.

4. ORGANIZATION AND ENVIRONMENT

With knowledge, now, of the objectives, the resources, the procedures and tactics, the reviewer concentrates on the organization and the environment in which it operates. He asks himself:

a) What are the formal lines of authority? Do they allow the manager to manage his marketing program? Should they be altered? If so, how? Does the marketing head have authority commensurate with his responsibilities? Does he have a "voice" in adjacent matters such as inventory levels, speed of customer shipments and new product development.

b) What are the informal power and status relationships and what are their effects on the operation? Is the liaison and co-operation adequate among officers responsible for various functions?

c) What is the level of capability of staff as a whole? What is the level in each function — advertising, research intelligence, promotion, sales, etc? What is the competence level of each person in a key position?

d) Is the staffing adequate in each area?

e) Does the organization structure facilitate or hinder the marketing process? What changes, if any, would improve the operation?

Appendix 1

Two Marketing Research Studies

The following market research studies are typical of many business opportunites and decisions that must be made.

A. MARKETING AN ELECTRICAL INTERIOR CAR WARMER

BACKGROUND

Brian Pamrand is the owner of an automotive electrical company that rebuilds starters, alternators and generators for resale on an exchange basis to automotive wholesale and repair outlets such as garages and service centres.

Pamrand has developed a unique electrical interior car warmer which, when installed, becomes an integral part of the car's heater equipment by using the car heater's blower and heat ducts. It is completely concealed, requiring only a thermostatic control switch to be mounted on the dash area. The unit is adaptable to all automobiles and should be installed by a service outlet.

Pamrand feels this product would be much more desirable than the conventional interior car warmer which is mounted as a unit and detracts from the interior appearance of the car. Unlike the conventional car warmer, the new product is not removed each spring and reinstalled each fall. Nor does it reduce leg room or become a possible source of rattles.

1. BASIC DECISION PROCESS

a) Pamrand is now in the automotive field and the proposed new product is compatible as an automotive accessory product;

b) He is currently dealing with all wholesale automotive jobbers in the Edmonton trading area and has access to all other wholesale automotive jobbers in Alberta through associate memberships in:
Alberta Automotive Retailers Association
Alberta Truckers Association
Alberta Motor Association

2. GOALS

Pamrand's main goal is to increase profits and achieve growth for the company.

Profit should be at least a 10% return on additional capital invested in the first year increasing to a minimum of 20% in the second year, 25% in the third year and maintaining this level or increasing beyond it.

3. ANALYSIS OF ACTUAL SITUATION

Proposed market area — Edmonton trading area as primary market, balance of Alberta area as secondary market.

	Population	1976 Vehicle Registration	
Primary market	560,000	Pass. Cars	222,440
		Trucks	105,263
Secondary market	1,220,000	Pass. Cars	484,228
		Trucks	229,371
	1,780,000		1,041,302
		Commercial	213,387
		TOTAL	1,254,689

The number of vehicles owned by Albertans has increased substantially in the past ten years from 578,889 in 1965 to 1,254,689 in 1976. Of this total, 706,668 were passenger cars and 334,634 were trucks with the balance being commercial vehicles.

Alberta drivers have access to lower gas prices than in other parts of Canada. They also travel more and buy more new vehicles per capita than in the other provinces.

In 1976, 132,943 new vehicles were sold in the province. This represented an approximate 7.5% ratio to population as compared to an approximate 6.3% Canada-wide ratio in 1975, indicating a higher than national average market potential particularly as this product will be sold in colder weather areas only.

The end user customer would be the car owner and the new car purchaser.

This potential customer could best be reached:

1) at the time of shopping for new snow tires, batteries and anti-freeze; therefore retail outlets would be provided with literature and demonstration display kits.

2) by direct mail and flyers delivered to homes.

3) by newspaper advertisements in the late fall and early winter with possible tie ins with anti-freeze, winter changeover and snow tire ads.

4) direct mailing to all garage and service stations with illustrated poster.

4. COMPETITOR DATA

1) Canadian Trade Directory lists eight automobile electric heater manufacturers, seven located in Eastern Canada and one in Manitoba.

2) Basic designs are all interior mounted styles with element wattage from 400W to 1000W and retail price ranges from $18 to $49.95.

3) Sales volumes and market share for each manufacturer is not known. It is expected that the primary and secondary market areas outlined are dominated by three of the above manufacturers with one holding the major share (45% - 50%).

4) Competitors' reaction is not anticipated to be too antagonistic as we are offering a more custom "built in" car warmer, whereas competitors' models are complete separate units. Their

main product lines are non-automotive electrical heaters of all types, primarily domestic baseboard and other auxiliary style electric heaters.

5) All competitors are located out-of-province; therefore, some freight savings should accrue to an Alberta manufacturer.

6) Target retail price of $39.95 plus installation costs estimated at $10.00 average will be at the top of the competitive price range, however, the permanent and custom "built in" feature should provide added consumer attractiveness and value.

5. GENERAL ECONOMIC DATA

1) Both the primary and secondary markets identified are currently in a buoyant condition and it is anticipated that the market will remain at this level for the next five years or more.

2) Additional manpower requirements would be three to five more staff and no real problem is anticipated in recruiting this additional requirement.

3) Present shop facilities may be expanded on existing property if required as zoning and building permits are tentatively approved.

6. GENERAL DATA

1) Shipments would be by local transfer and trucking companies.

2) Adequate utilities are available.

INTERPRETATION AND BASIC DECISION

Most of the data collected seems favourable. The proposed product is a desirable feature in the cold weather area of the identified market.

In a personal research sample, Pamrand checked 200 cars parked in a downtown carpark and found 63 had visible interior car warmers installed. Another count of 500 cars in a suburban shopping centre revealed that 180 had interior car warmers installed. Out of the 700 cars checked, then, 243 or 34.7% had warmers installed.

Using this ratio, Pamrand calculated the following potential:

	Primary Market	Secondary Market	Total
Passenger Car Registrations	222,440	484,228	706,668
Truck Registrations	105,263	229,371	334,634
TOTAL	327,703	713,599	1,041,302

			Market Potential
Total registrations	1,041,302		
New vehicle registrations	132,943		132,943
BALANCE	908,359	@ 65.3% (100-34.7%)	593,158
TOTAL MARKET POTENTIAL			726,101 units

Target Market Share 2% 14,720 units

Pricing structure:

Retail Selling Price	$39.95	
Service Centre Cost	29.95	(25% markup on cost)
Wholesale Jobber Cost	24.95	(20% markup on cost)

Unit Costs

Production Costs	$14.80
Packaging Costs	.30
Advertising & Promotion	1.90
Warehousing & Shipping	.80
Sales Cost	2.00
Admin. & Other Costs	1.50
TOTAL ESTIMATED COST	$21.30

Margin per unit —
$24.95 - $21.30 = $3.65
Estimated gross profit —
14,522 units @ $3.65 = $53,005

Estimated Capital Required

Shop addition 24' x 48' (1,152 sq. ft. @ $30 per sq. ft.) $34,560		
Interest 12% on $34,560	$ 4,147	
Depreciation		
10% per year on $34,560	3,456	
Interest Calculation on Bank Operating Credit		
Estimated 14,720 @ $21.30 = $313,536		
Estimated peak maximum 150,000 @ 12%	18,000	
Estimated overhead and contingencies expense	15,000	
TOTAL		40,603
Projected net profit		13,125

This projection, then, meets the goals Pamrand established and indicates a basis for a decision to proceed.

Pamrand must now confirm his initial projections with his accounting source, review his financial position and make a management decision whether to proceed and develop an effective marketing program.

B. PLANNING HAIR STYLIST OPERATION

BACKGROUND

Jae Catel was employed by a men's clothing store, but Jae's interest was to someday own a men's hair styling salon. To fulfill this ambition, Catel enrolled in a hair stylist training course while continuing to work at his present position on weekends and evenings.

Catel is now nearing completion of his training course and wants to do some research in the hair stylist service business.

GOALS

Catel has decided that:

a) He does not wish to live in a large metropolitan city and would prefer a centre with a population of 10,000 to 50,000.

b) He would confine his shop to a one man operation and provide a high level of personalized service.

c) His gross income should be $24,000 in the first year and increasing at least proportionately to the cost of living annually plus a 5% growth factor for each of the next three years.

ANALYSIS

Population Statistics & Projections

		Projected Population			
	1975	1981	1986	1991	1996	2001
Total Population	1,768,000	1,941,200	2,130,500	2,311,600	2,477,500	2,640,400
Total Male Population	840,500 (47.5%)	912,364	1,011,988	1,098,010	1,176,812	1,254,190
Total Single Population (Under 15 yrs)	260,800 (31.0%)	282,832	313,715	340,383	364,811	388,798
Total Single Population (Over 15 yrs)	177,500 (21.0%)	191,596	212,517	230,582	247,130	263,379
Total Male Population (Married)	378,600 (45.0%)	419,563	455,395	494,104	529,115	564,385
Total Male Population (Widowed/Divorced)	23,600 (0.3%)	27,383	30,361	32,941	35,756	37,628

General Statistical Information

Number of Barber Shop Establishments in Alberta	523
Total Receipts	$6,921,000
Average Unit Receipt	$13,009
Employees — Male 163 — Female 117	380

Location Data

City	(1976) Population	(1976) Trading Area Population
Lethbridge	48,975	190,000
Medicine Hat	33,220	88,500
Red Deer	33,717	200,000
Grande Prairie	17,626	70,000
Fort McMurray	23,703	22,000
Lloydminster	11,240	75,000
Camrose	10,593	100,000

With Catel's general knowledge of each of the above potential locations, he favoured the Camrose area because it was within easy driving distance to Edmonton, was a regional centre of mixed farming, was a coal and oil producing area, and had a large potential trading area population with established growth industries. This tends to provide a stable market potential.

Additionally, good educational, medical, cultural and recreational facilities were available, as well as adequate and reasonable housing.

Further investigation revealed there were seven barber shops in Camrose, and Catel estimated that the four downtown operations easily had the bulk of the men's haircutting business. The other three shops were in small suburban locations, each connected with either a billiard parlour, a dry cleaning agency or a newsstand.

Of the four downtown locations, Catel noted one shop was operated by an older gentleman who had not modernized his premises and whose patrons were probably in the same age bracket as the proprietor.

The premises, equipment and area would not attract the younger population; however, the downtown location was ideal with the additional plus of a parking lot along side as well as the "on street" parking privilege.

Catel decided to investigate this possibility further. He contacted the local Chamber of Commerce and some real estate agencies and spoke to the bank manager down the street. From this personal research, he was able to determine that the owner's name was a Mr. Nick Zambach, he had been in business in the same location for over 20 years and had indicated interest in selling or renting out his premises.

Projected Data and Analysis

Current Camrose population — 10,593
Estimated Male population (47.5%) — 4,978

			Estimated Hair Cuts Per Year	Total
Estimated Male Population Under 15 years	31%	1,543	6	9,258
Estimated Male Population Over 15 years (single)	21%	1,045	7	7,315
Estimated Male Population Married	45%	2,240	9	20,160
Estimated Male Population Widowed/Divorced	3%	150	9	1,350
TOTAL		4,978		38,083

Estimated potential revenue @ $5.00 per haircut
(38,083 x 5) = $190,415
Seven Shops — basic equal share $27,202 Gross

Projected Expenses

(As per national average provided in Catel's training course)

Sales	$27,202	
		% of Sales
Expenses		
Rent/Mortgage	$ 2,040	7.5
Supplies	1,360	5.0
Depreciation	1,360	5.0
Advertising	408	1.5
Laundry/Towel Service	272	1.0
Utilities	544	2.0
Telephone	272	1.0
Repairs, Maintenance	544	2.0
Insurance	272	1.0
Professional Fees (Accountants, Lawyers, etc.)	272	1.0
Licenses and Taxes	816	3.0
Miscellanious	816	3.0
TOTAL EXPENSE	$ 8,976	33.0
NET	$18,226	67.0

ADVERTISING AND PROMOTIONAL PROGRAM

Catel recognized that to obtain his share of the potential market he would require a planned program of advertising and promotional activities, and since hair stylists offer a very personal and individual service, the best promotion is often through recommendations from satisfied patrons.

To attract his initial customers, he planned to:

advertise his new facility and personalized service in the local paper on a regular basis for the first year.

subscribe in the "Welcome Wagon" and offer a free haircut to the new male resident.

conduct a direct mail campaign announcing his new facility and outlining the services offered such as:
- availability of appointments to avoid waiting
- extended hours to accommodate late working people
- outcalls to hospitals, nursing homes and aged
- consultation, sale and maintenance of hair pieces
- ample parking available

Additionally, he planned to have:
- a high quality exterior sign installed
- air conditioned premises
- recorded background music
- interior tastefully decorated
- coffee and magazines available
- a private area for hair-piece sales and service
- a good selection of hair style pictures

Catel was aware that the right decor and atmosphere were very important as a visit to a hairstylist becomes something of a social event for regular patrons.

Additionally, Catel would offer to demonstrate his professional abilities at fairs, community theatrical productions, clubs and church groups.

SUMMARY

Catel had identified the business he wished to be in, the size of the community he wished to live in, the approximate gross revenue in the first year of operation and the level of growth for the next three years.

He researched the trading area as to population and trends, the number of hairstyling establishments and their estimated revenues. He then projected his revenue and expenses and outlined his advertising and promotional plans to achieve these projections.

With this information base meeting his initial criteria, Catel is now in a more knowledgeable position to evaluate the viability of proceeding with his plans.

Appendix II

Marketing Services and Market Research Services

MARKET RESEARCH SOURCES

The Marketing Services Branch of Business Development and Tourism can assist companies in reviewing their marketing operations and suggesting market research information sources that will aid in identifying and evaluating potential new markets and expanded sales.

The Marketing Services Branch offers an incentive program to assist companies in identifying and developing new markets and assists participation in national and international trade fairs and exhibitions.

For more information on the above services, write to:

Marketing Services Branch
Alberta Economic Development
2nd Floor, Pacific Plaza
10909 Jasper Avenue
Edmonton, Alberta
T5J 3M8
Telephone:(403)427-2269

Statistics Canada
10th Floor, Baker Centre
10025 - 106th Street
Edmonton, Alberta
T5J 1G9
Telephone: (403) 425-5052

Toll free access to Edmonton office can be reached by dialing 1-800-222-6400.

Statistics Canada has a Central Inquiries Service which operates as a focal point to deal with public inquiries. This group of specialists is thoroughly conversant with the variety of information available throughout the bureau and other sources of information in the federal and provincial governments and private organizations.

Write to:
Statistics Canada
Ottawa, Ontario
K1A 0T6
Telephone: (613) 992-4734 or 992-2959. Requests can be recorded.

A full library of Statistics Canada publications is maintained at:
University Library
University of Calgary
Calgary, Alberta
T2N 1N4

The following public libraries receive copies of all Statistics Canada publications which are available for reference purposes:
Calgary Public Library
616 Macleod Trail, S.E.
Calgary, Alberta
T2G 2M2

Edmonton Public Library
7 Sir Winston Churchill Square
Edmonton, Alberta
T5J 2V4

EXPORT MARKET INFORMATION

The federal department of Industry, Trade and Commerce will provide market information regarding specific products in specific countries and the general economic outlook for that area.

When requesting information, please supply the following information to minimize delays:

a) country or countries for which you desire information;

b) identify your product clearly and provide illustrative literature and product specifications for tariff classification, etc.

Direct your request for export marketing information to:
Mr. C.G. Bullis, Director
Alberta and N.W.T. Regions
Industry, Trade and Commerce
500 Macdonald Place
9939 Jasper Avenue
Edmonton, Alberta
T5J 2W8
Telephone: (403) 425-6330

or directly to:
International Bureau
Industry, Trade and Commerce
112 Kent Street
Ottawa, Ontario
K1A 0H5

with a copy to the above Edmonton regional office.

DOMESTIC MARKET INFORMATION

Marketing Services Branch
Alberta Economic Development
2nd Floor, Pacific Plaza
10909 Jasper Avenue
Edmonton, Alberta
T5J 3M8
Telephone:(403)427-2269

Several branches within the department conduct specific product or market analyses and have access to certain market information that can be made available.

Additionally, the Alberta Index of Manufacturers publication and other published directories provide an excellent means of making known goods and services that are available from Alberta companies.

Treasury Branch
Alberta Bureau of Statistics
9515 - 107 Street
Edmonton, Alberta
T5K 2C3
Telephone: (403) 427-3058

provides a source of information and reference of statistical data on the provincial and national levels.

Canadian Market Research and Advertising Services are available to provide studies and market information on almost every manufacturing and service industry, in addition to publishing some 60 different business and trade publications which are an excellent source of current trade and economic trends.

Contact:
Maclean-Hunter Business Publications
481 University Avenue
Toronto, Ontario
M5W 1A7

or

Maclean-Hunter Business Publications
942 - 10830 Jasper Avenue
Edmonton, Alberta
T5J 2B3
Telephone: (403) 428-6886

Southam Business Publications Limited
1450 Don Mills, Ontario
M3G 2X7

Industry associations are sources of specialized market data. Some of the associations are:

Canadian Manufacturers Association
608 - 9990 Jasper Avenue
Edmonton, Alberta
T5J 1P8
Telephone: (403) 426-6622

Edmonton Chamber of Commerce
2nd Floor, 10039 Jasper Avenue
Edmonton, Alberta
T5J 0C2
Telephone: (403) 426-4620

Calgary Chamber of Commerce
273 One Palliser Square
125 - 9th Avenue, S.E.
Calgary, Alberta
T2G 0P6
Telephone:(403) 263-7435

Retail Merchants Association of Canada (Alberta) Inc.
613 Revillon Building
10201 - 104 Street
Edmonton, Alberta
T5J 1B4
Telephone: (403) 422-7631

NOTE — Check the yellow pages of your telephone directory for offices of various trade associations for your initial market research contact.

Alberta Tourism and Small Business Offices

Contact any Alberta Business Development and Tourism Office for assistance.

HEAD OFFICE EDMONTON	Capitol Square 10065 Jasper Avenue Edmonton, Alberta T5J 0H4 Ph. 427-3685
CALGARY	Room 906 620 - 7 Avenue S.W. T2P 0Y8 Ph. 261-6284
CAMROSE	Provincial Building 4867 - 50 Street T4V 1P6 Ph. 672-4411
EDSON	Provincial Building P.O. Box 2490 T0E 0P0 Ph. 723-3343
GRANDE PRAIRIE	102 Provincial Building 9905 - 100 Street T8V 1B9 Ph. 532-2230
LACOMBE	Provincial Building P.O. Box 99 T0C 1S0 Ph. 782-6711
LETHBRIDGE	2nd Floor, Provincial Building 200 - 5 Avenue S. T1J 4C7 Ph. 329-5414
MEDICINE HAT	320 Provincial Building 770 - 6 Street S.W. T1A 0G9 Ph. 529-3630
PEACE RIVER	101 Provincial Building P.O. Box 641 T0H 2X0 Ph. 624-6100
ST. PAUL	Provincial Building P.O. Box 1688 T0A 3A0 Ph. 645-4475

ALBERTA TOURISM AND SMALL BUSINESS OFFICES